APRIL 10, 2012

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SECTOR COMMENT

New State Withholding for Medicaid Costs is Credit Negative for Florida Counties

From U.S. Public Finance Weekly Credit Outlook

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A new bill signed into law by Florida Gov. Rick Scott on March 29 has negative credit implications for Florida counties. Provisions in Bill H.B. 5301 permit the state to withhold counties' share of sales tax revenues to pay for current Medicaid costs, and also reduces counties' share of general state revenue- funds over the next five years in order to pay for the state's $325.5 backlog of Medicaid payables.

Beginning in May, the state will withhold the counties' portion of state-shared sales tax revenues to pay counties' annual Medicaid expenses. This procedural change weakens available revenue to service sales tax bonds and non-ad valorem obligations. Previously, the state transferred the full amount of sales tax monies due to counties on a monthly basis, and counties would pay Medicaid expenses from their general funds. Florida counties are charged for certain Medicaid care and service items and in the past have reimbursed the state for 35% of the non-federal share cost of in-patient hospitalizations greater than 10 days and for the cost of nursing home or intermediate facilities in excess of $170 per month. The billing was complicated and the state had the burden of proving what counties should be billed based on residency. For several reasons, there has been a decline in the amount of billings collected in recent years. The new law gives the state more control over counties Medicaid payments.

To pay for the state's $325.5 million of backlogged Medicaid payables, the law reduces the monthly amount of general state revenue sharing to counties over a five-year period starting in October. Roughly one-third of the $325.5 million will be recouped in the first year, and the remaining two-thirds will be spread equally over the following four years. Consequently, revenues are expected by county officials to fall by a total of $75 million in the first year, and between $30 million and $60 million over the four remaining years. The lost revenues add another financial strain on counties already challenged by waning property tax and other operating revenues.

Debt service on bonds backed by specific revenue pledges such as sales tax bonds (see Exhibit), are somewhat protected because the new law stipulates that the state will not withhold revenues to the extent that it jeopardizes a county's ability to pay debt service on these bonds. When the county has insufficient funds to pay both debt service and Medicaid expenses payable, the state will bill the county the Medicaid shortfall amount instead of withholding it from sales taxes. Although these protections should ensure that the bonds will maintain at least sum-sufficient coverage, the increased withholdings of counties' sales tax revenues will invariably reduce debt service coverage and bonding capacity.

Other types of bonds that will likely experience reduced debt service coverage levels include guaranteed entitlement bonds, which are secured by a modest and fixed portion of state shared revenues and are typically more leveraged than other securities. Additionally, bonds secured by 50% of prior year state revenue sharing amounts, are a newer, less-prevalent type of bond issued by Florida counties that are likely to be impacted.

Moody's Ratings on Florida Counties

Counties	GO/Issuer	Sales Tax Bonds	Non-ad Valorem Bonds
Alachua	Aa2	Aa3	N/R
Bay	Aa2	A1	N/R
Brevard	A1*	A1	N/R
Broward	Aaa	Aa2	Aa1
Collier	Aa1	A1	Aa2
Miami-Dade	Aa2	N/R	Aa3
DeSoto	N/R	N/R	A1
Escambia	Aa2	A1	Aa3
Hernando	Aa2	A1	Aa3
Hillsborough	Aaa	Aa2	Aa1
Lake	Aa2	Aa3	N/R
Lee	Aa1	N/R	Aa2
Leon	Aa2	A1	N/R
Manatee	Aa1	N/R	Aa2
Marion	Aa2*	A1	N/R
Nassau	Aa2	N/R	Aa3
Orange	N/R	Aa3	N/R
Osceola	Aa2	A1	N/R
Palm Beach	Aaa	N/R	Aa1
Pasco	N/R	Aa3	N/R
Polk	Aa	A1	N/R
Sarasota	Aaa	Aa2	N/R
Seminole	Aa1	Aa1	N/R
St. Johns	Aa1	A1	N/R
St. Lucie	Aa2	A2	N/R
Sumter	Aa3	A2	N/R
Volusia	N/R	Aa3	N/R

*GO Limited tax bond rating

Report Number: 141327

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